



Excise Tax Advisory

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NUMBER: 245.04.162 *Repealed June 30, 2000*

CONVERSION DATE: July 1, 1998

INVESTMENT INCOME OF A BROKERAGE BUSINESS

Issued September 16, 1966

Repealed June 30, 2000

Do the gross proceeds of a brokerage business include gains realized from the sale of investment securities purchased by a broker?

Taxpayer, a brokerage business, purchased securities for investment purposes which it wished to distinguish from securities purchased for ordinary trading purposes. Exemption was claimed on income realized from the interest, dividends, and sale of the investment securities.

Although an exception to the Business and Occupation Tax is permitted for persons other than banking, loan, security and financial businesses, receiving Income from investments (RCW 82.04.430(1)), security houses are taxable on the "gross income of the business." Rule 162. RCW 82.04.080 defines the latter phrase to include "gains realized from trading in stocks, bonds, or other evidence of indebtedness, interest, discount, rents, royalties, fees, commissions, dividends, and other emoluments however designated. . ."

The Commission held that RCW 82.04.080 does not distinguish between securities purchased for investment purposes and those purchased for trading purposes. Further, by its terms, the deduction of RCW 82.04.430(1) does not apply to "amounts derived by . . . security, . . . businesses, from investments . . ." All gains from the interest, dividends and sale of such securities must be included within the gross income of the business. (Letter)

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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Please direct comments to:
Department of Revenue
Legislation & Policy Division
P O Box 47467
Olympia, Washington 98504-7467
(360) 753-4161 eta@DOR.wa.gov